



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE OFFICE OF THE  
KENTUCKY STATE TREASURER**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**  
**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS**  
**AUDIT EXAMINATION OF THE OFFICE OF THE KENTUCKY STATE TREASURER**  
**FOR THE YEAR ENDED JUNE 30, 2000**

**BACKGROUND:**

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, Office of the Kentucky State Treasurer.

The Office of the Kentucky State Treasurer is the chief clearinghouse for revenues that flow into state government. The number of transactions and the amount of money processed is enormous.

Consider these financial statistics related to our audit for fiscal year ended June 30, 2000:

- The Treasury Department had total deposits of \$259,174,156,168 - made up of electronic deposits totaling \$203,819,848,955 and \$55,354,307,213 in checks.
- Approximately 3,704,554 checks were deposited.
- \$250,727,947,777 in wire transfer disbursements were made.
- \$11,879,089,749 in checks were written.
- 6,725,099 checks were written.

The Office of the Kentucky State Treasurer also performs the following functions:

- Records, verifies, and pays all federal, state, and local withholding taxes for employees of the Commonwealth.
- Implements court-ordered attachments against the salaries of state employees or moneys owed to state vendors.
- Makes timely deposit of incoming revenues from state agencies.
- Records, monitors, and reconciles all transactions in the state's depository and checking accounts.
- Performs critical functions that ensure compliance with the Federal Cash Management Act of 1990.

**SUMMARY OF AUDITOR'S RESULTS:**

**Financial Statement Accounts**

During our review of the Office of Kentucky State Treasurer for fiscal year ended June 30, 2000, we noted significant problems with the process for reconciling the Commonwealth's bank accounts with the newly implemented accounting system. We noted the inordinate length of time needed to perform this reconciliation properly and the lack of documentation maintained to support the reconciliation. The Office of Kentucky State Treasurer recognizes the significance of these procedures and has been working diligently to provide relevant procedures and timeliness to this process in order to resolve any problems associated with the process.

**Other Matters**

We also noted other matters of less significance we have included in this report relating to:

- check write-off procedures that are not performed in a timely manner as required by statute and
- the lack of supporting documentation to ensure that voided checks are properly maintained.



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## **INTRODUCTION**





**OFFICE OF THE KENTUCKY STATE TREASURER  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000**

**Introduction**

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Schedule of Expenditures of Federal Awards**

This report contains the Schedule of Expenditures of Federal awards for the Office of the Kentucky State Treasurer (Treasury). The Notes to the Schedule of Expenditures of Federal Awards provides more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Treasury to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Treasury was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying schedule.

**Schedule of Findings and Questioned Costs**

The Schedule of Findings and Questioned Costs consists of three sections:

- Summary of Auditor's Results
- Financial Statement Findings
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable, material) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement or Other Matter Findings. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**OFFICE OF THE KENTUCKY STATE TREASURER  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(Continued)**

**Summary Schedule of Prior Audit Findings**

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1999 (as well as any previous finding which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2000. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action. If a finding has been re-classified, from material to reportable for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification. In the following year, the finding will appear in the reportable section of the summary schedule.

**Audit Approach**

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 2000 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with government auditing standards generally accepted in the United States of America;
- An audit of the internal control applicable to the Treasury, to the extent necessary to consider and test the internal accounting and administrative control systems as required;

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.

**OFFICE OF THE KENTUCKY STATE TREASURER  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**List Of Abbreviations/Acronyms Used In This Report**

AMS	American Management Systems, Inc.
APA	Auditor of Public Accounts
C&I	Cash and Investments
CFDA	Catalog of Federal Domestic Assistance
Finance/FAC	Finance and Administration Cabinet
FY	Fiscal Year
KST	Kentucky State Treasurer
KRS	Kentucky Revised Statutes
MARS	Management Accounting Reporting System
N/A	Not Applicable
OMB	Office of Management and Budget
PC	Personal Computer
State Auditor	Auditor of Public Accounts
Treasury	Office of the Kentucky State Treasurer
U.S.	United States

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL**





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Jonathan Miller, State Treasurer  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet

Report On Compliance And On Internal Control Over  
Financial Reporting Based On An Audit Of The General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000, we have audited central level cash functions of the Office of the Kentucky State Treasurer (Treasury), an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests on Treasury for compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management in the Schedule of Findings and Questioned Costs.

Report On Compliance And On Internal Control Over  
Financial Reporting Based On An Audit Of The General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Treasury's internal control over central level cash functions in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over the cash functions. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Treasury's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Cost as items 00-KST-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over central level cash functions would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider 00-KST-1 to be a material weakness. In addition, we noted other matters involving internal control over the cash functions that are described in the accompanying Schedule of Findings and Questioned Costs of this report.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

February 28, 2001



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Accounts**

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth’s general-purpose financial statements, which included Treasury, as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of Treasury’s internal control over financial reporting disclosed one reportable condition that we consider to be a material weakness. Our audit also disclosed other matters relating to the internal control over financial reporting for the Treasury.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted *Government Auditing Standards*.

**Federal Awards And Schedule of Expenditures of Federal Awards**

This section is not applicable to Treasury.

**Identification Of Major Programs**

This section is not applicable to Treasury.

**Dollar Threshold Used To Distinguish Between Type A And Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$14 million; however, there were no programs applicable to Treasury.

**Auditee Qualify As Low-Risk Auditee?**

The Commonwealth did not qualify as a low-risk auditee.

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Material Weakness And/Or Material Instances Of Noncompliance:**

**FINDING 00-KST-1: Treasury And FAC Should Improve Procedures For The Reconciliation Process And Maintaining Supporting Documentation**

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Due to the change in the Commonwealth's accounting system, Treasury, along with the Finance and Administration Cabinet (FAC), has worked throughout FY 2000 attempting to develop and perfect the bank reconciliation processes. Throughout most of the fiscal year, Treasury and Finance have worked together to reconcile the Commonwealth's bank accounts per month. We noted that it took approximately 9 months to complete the July 1999 reconciliation. At the outset of the audit in September 2000, Treasury had not signed off on the bank's reconciliation amounts for August 1999 through June 2000, authorizing them to formally sign a *Monthly Statement of State Depository*. Finally, in December 2000, Treasury signed off on the reconciliations and the Auditors' office was able to obtain a formal statement of account from the bank.

In addition, at the time of the implementation of MARS, there were no identified policies and procedures in place to be able to perform the reconciliations. As the audit attempted to review July 1999 through April 2000 files, we were unable to piece information together in order to adequately review the reconciliations. The reconciliation procedures for those months were not well documented and any adjustments or changes that needed to be made were insufficiently supported by documentation.

Our initial plan for auditing this section was to reperform the monthly reconciliations for all accounts for all months in the fiscal year. But because of the difficulty of obtaining information and the considerable lack of an audit trail for the first ten months of the fiscal year, we were unable to perform any significant procedures for those months. We were able to adequately test significant portions of the reconciliations for the months of May and June.

The results of our findings from those months include:

Considerable lack of audit trails and documentation. There were several occasions where the audit staff could not locate either bank and/or state account amounts. We also had difficulty in finding documentation of the causes of differences. We note that the process for June 2000 was much improved, although we still ran into problems.

For the General Depository Account, we noted that there was not a single comparison schedule for the entire account. This comparison schedule was available for the other nine bank accounts. Treasury could only provide reconciliation schedules for the categories that contained MARS activity.

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Material Weakness And/Or Material Instances Of Noncompliance: (Continued)**

**FINDING 00-KST-1: Treasury And FAC Should Improve Procedures For The Reconciliation Process And Maintaining Supporting Documentation (Continued)**

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For May, we noted problems tracing bank and MARS information in the deposits category. Other categories were agreed without significant exception.

For the June reconciliation, we noted difficulty in finding explanations for differences found in categories 1000/1030 Deposits, 3000 Checks Paid, and 3900 Wire Transfers. We were able to successfully trace all bank and MARS activity amounts to supporting documentation.

**Recommendation**

We recommend the following:

- An all-inclusive policy and procedures manual should be developed and implemented. It would be helpful if this manual included the “how-to” procedures for obtaining all relevant information and how it is used in the reconciliation process.
- Sufficient supporting documentation should be maintained for each monthly reconciliation. This would include maintaining support for any adjustments that are required through MARS.
- Comparison schedules and other information necessary to complete the reconciliation should be used consistently with all of the bank accounts.
- A time schedule for completing the monthly reconciliation should be developed to ensure that the performance of the reconciliation is completed in a timely and useful manner.

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Material Weakness And/Or Material Instances Of Noncompliance: (Continued)**

**FINDING 00-KST-1: Treasury And FAC Should Improve Procedures For The Reconciliation Process And Maintaining Supporting Documentation (Continued)**

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**Management's Response And Corrective Action Plan**

*The process for Cash Reconciliation in MARS was developed throughout much of FY 2000 and the beginning of FY 2001 by a team of accountants from the State Treasury and the Finance Cabinet Controller's Office. There was no process in place when MARS went live on July 1, 1999. That process was created over the ensuing months, lasting into the first half of FY 2001. Many members of the reconciliation team had not been involved in the Treasury's cash reconciliation process before. These team members documented their reconciliation efforts in different ways, and not all were completely familiar with the level of documentation expected by the State Auditor. In addition, because so many different individuals were sharing and using the same records, some of those records were not returned to their proper location, and some, it appears, were inadvertently misplaced. It was a difficult and extraordinary time involving unique circumstances, which are not likely to repeated.*

*Most of the difficulties encountered by the auditors in FY 2000 have now been corrected, and the recommendations are already in place. There is a basic "Bank Reconciliation Users Manual" already in existence that was developed by members of the reconciliation team. The date of the initial draft of that manual was November 6, 2000. This manual outlines each area to be dealt with in the reconciliation, describing the contents of that particular category and the approach to be taken to complete the reconciliation. This is still a document under construction. It will continue to be updated, with increasing detail as to how the reconciliation should be accomplished. This should ultimately be the "all inclusive policy and procedures manual" which is recommended in the comment.*

*The monthly reconciliation process is now back in the hands of the Treasury Department's Accounting Branch. There should now be consistency in the procedures used and the documentation retained for the reconciliation of each bank account. The documentation is thorough, and is fairly easy to follow. The "comparison schedule" spreadsheets are now prepared monthly for the General Depository Account, and for all other accounts where multiple corrections require a spreadsheet format for clarity of presentation. The differences are explained, and corrective actions are documented.*

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

**Material Weakness And/Or Material Instances Of Noncompliance: (Continued)**

**FINDING 00-KST-1: Treasury And FAC Should Improve Procedures For The Reconciliation Process And Maintaining Supporting Documentation (Continued)**

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**Management's Response And Corrective Action Plan (Continued)**

*The Annual Employee Performance Evaluation criteria for the Accounting Branch employees now gives the expectation that the "balancing should be completed by the end of the following month." Our hope is that, as the reconciliation process continues to improve, the reconciliation will be completed much earlier in the month than this.*

*Were the staff of the State Auditor to look ahead into FY 2001, they would find that the reconciliation process improves with each passing month. We feel that, at long last, a workable process is now in place. It still will require additional refinement, but those refinements are coming fairly quickly. The reconciliation process is, in all probability, documented better and more clearly than it ever has been in the past. The many difficulties encountered during the first year of MARS are now in the past. We feel confident that the State Auditor will be pleased with the process as it had finally been developed.*

*Responded to by: Eugene W. Harrell, Director, Disbursements and Accounting*

**Other Matters Relating To Internal Controls And/Or Compliance:**

**FINDING 00-KST-2: Treasury Should Improve Controls To Ensure Check Write-offs Are Done In A Timely Manner**

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Treasury and Finance failed to ensure check write-offs were performed in a timely manner. During testing of the write-off process, the auditor found it took 2 to 7 months during FY 2000 for write-offs to be completed. KRS 41.370 states, "Any check issued by the State Treasurer shall not be valid as an order for payment after one (1) year from its date of issue and this limitation shall appear on all checks issued. The State Treasurer is authorized to clear the records of all such unpaid checks and credit the amounts to the fund against which it was originally drawn."

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Compliance: (Continued)**

**FINDING 00-KST-2: Treasury Should Improve Controls To Ensure Check Write-offs Are Done In A Timely Manner (Continued)**

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**Recommendation**

Treasury and Finance should improve controls to ensure that write-offs are done in a timely manner so that the MARS accounting system may reflect accurate account balances.

**Management's Response And Corrective Action Plan**

*The MARS process to write-off or cancel checks and make appropriate entries in the Funds from which the checks were originally drawn had actually not been developed when MARS went live July 1, 1999. The process had to be developed over ensuing months, and required a great deal of "trial and error" testing. There were a lot of initial problems with the process, and new issues have continued to emerge as the process has been tested and refined. The programmers with AMS are even today working on problems, which cause continuing delays in the automated procedures to make the proper and accurate accounting entries to write-off the year-old checks back into the Funds from which they were issued. The process is better than it was at the beginning of FY 00, but it is still not where it will eventually be. Both Finance Cabinet and the Treasurer's Office are very aware that the delays mentioned in the audit comment were excessive, and they pointed out the problems which had been encountered to the auditors at the beginning of the audit. The delays were not brought about by neglect or any dereliction of duty; they are one of the consequences of changing to an entirely new management accounting and reporting system. They will ultimately be resolved by the MARS programmers.*

*It is important to recognize that the stop payment orders placed on year old checks at Farmers Bank were not affected by these delays in the MARS accounting entries. The stop payments with the bank were done in a timely manner each month, and checks older than one year old were stopped and returned to the banks which submitted them for payment, as called for in KRS 41.370.*

*Responded to by: Eugene W. Harrell, Director, Disbursements and Accounting*



**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Compliance: (Continued)**

**FINDING 00-KST-3: Treasury Should Improve Controls To Ensure Voided Checks Are Properly Maintained**

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Treasury failed to maintain supporting documentation for voided checks. The auditor was unable to review these checks for testing purposes.

Without proper documentation, Treasury cannot research discrepancies that may occur throughout the course of a year and auditors cannot follow a sufficient audit trail.

**Recommendation**

Treasury should improve controls to ensure that documentation relating to voided checks is secure and properly stored.

**Management's Response And Corrective Action Plan**

*The voided check file and the corresponding re-issued check register maintained in the Treasury's Data Processing Section no longer represent any element of "control" in the Treasury operations. In fact, a similar register maintained in the Treasury's Stop Payment area was done away with at the beginning of MARS with the written permission of the State Auditor. The register is the guide to knowing what checks have been voided/re-issued, and hence, if any voided checks are missing. These files are actually holdovers from the former accounting system and printing systems, when Treasury checks were all produced on pre-printed forms. In this system, every form had to be accounted for, and a listing was kept showing, which checks had been re-issued and who had done so. The voided checks corresponding to that listing were also retained as a part of the audit trail. In MARS, however, there are no pre-printed check forms for which we must be accountable. The MARS check stock is totally blank, and the entire check face is printed when the check is produced or re-made. Consequently, there no longer needs to be a trail linking a numbered blank check to a specific check that is re-made. The importance of the voided check file and the voided/re-issued check register are greatly diminished with the laser printing systems used in MARS, and they probably have outlived most, if not all, of their usefulness. Missing checks in that file cannot be considered a "Control Weakness," for the file itself is not longer and important part of the Treasury's controls.*

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/OR Compliance: (Continued)**

**FINDING 00-KST-3: Treasury Should Improve Controls To Ensure Voided Checks Are Properly Maintained (Continued)**

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**Management's Response And Corrective Action Plan (Continued)**

*The security over re-issued checks now resides within the security of the PC's and laser printer, not in security over blank checks and a verifiable link to voided checks.*

*The checks currently contained in the voided check file represent only a tiny fraction of the checks, which are remade after being damaged in the printing process. The checks in the voided check file basically represent the single items which, because of convenience, are manually remade using a PC and desktop printer. Larger quantities of checks that have to be voided and remade are reproduced on the Treasury's larger laser printers using the MARS data sets, and the voided checks are shredded. In all probability, the missing voided checks to which this comment refers were shredded as well. Shredding voided checks is the safest way to insure that those checks do not return to circulation.*

*Retaining voided checks, which have been manually re-issued, at least for a short period of time, does have some value, and the Treasury will continue to do so. Should a re-make be done incorrectly, and the check kick out on the daily check reconciliation/exception report because of a mismatch in check serial numbers or amounts, having the original voided check in a file allow for an immediate verification that a typing error had occurred, and identifies in what area that error was made. While a valuable convenience, however, this use of the file no longer represents an important aspect of security or control as it did in the pre-MARS days. The re-issued check register kept in Data Processing area probably should be discontinued, as was the similar register in the Stop Payments Area. It is a time-consuming anachronism that is no longer necessary for security purposes to account for all pre-printed check forms. The actual voided checks will be kept in a file for Treasury internal research purposes. We see no continuing reason for this file to be subject to audit scrutiny, however, for the circumstances and processes which initially caused this to be an audit item no longer exists.*

*In short, we would disagree that 4 missing voided checks represent a "Control Weakness," for the voided check file and corresponding re-issued check register no longer constitute an important part of the Treasury's security and controls. This is another example of a process formerly considered important which has been radically altered under MARS. This particular audit item should probably be removed from the audit papers to reflect more properly the current processes under MARS.*

**OFFICE OF THE KENTUCKY STATE TREASURER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating To Internal Controls And/Or Compliance: (Continued)**

**FINDING 00-KST-3: Treasury Should Improve Controls To Ensure Voided Checks Are Properly Maintained (Continued)**

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**Management's Response And Corrective Action Plan (Continued)**

*For our internal convenience, we will continue to maintain voided check files, and will reinforce to all employees who remake damaged checks manually that they should retain the damaged checks in a monthly file that can be used for research on reconciliation issues.*

*Responded to by: Eugene W. Harrell, Director, Disbursements and Accounting*

**Auditor's Reply**

We agree that the implementation of MARS has altered several processes that existed with the previous accounting system. While the manner in which voided checks may be currently handled, and the importance of that function may have decreased significance by the Treasury Department, we continue to be concerned about the findings of the void checks test. We understand there is reduced risk for checks that are shredded due to error in the printing process because they are not put into circulation. However, we are concerned about those checks that have been returned for corrections (address, name, etc). We believe, and the agency response indicates such, that a control process exists, and it is important to log those particular checks and properly store them once they have been voided. Our concern is the circulation of these checks. We test this area to ensure that checks that have been returned for corrections and are to be manually reproduced are actually voided and maintained in a secure location. We will be glad to reassess this situation with Treasury during our next audit.

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award audit findings.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**



**OFFICE OF THE KENTUCKY STATE TREASURER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Reportable Conditions**

***(1) Audit findings that have been fully corrected:***

FY 99	C&I -1	Treasury Should Improve Procedures For Storing Supporting Documentation For The Reconciliation Process	N/A	\$0	Resolved
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***(2) Audit findings not corrected or partially corrected:***

There are no findings to report in this category.

***(3) Corrective action taken is significantly different from corrective action previously reported:***

There are no findings to report in this category.

***(4) Audit finding is no longer valid:***

There are no findings to report in this category.

**OFFICE OF THE KENTUCKY STATE TREASURER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Other Matters</u></b>					
<b><i>(1) Audit findings that have been fully corrected:</i></b>					
There are no findings to report in this category.					
<b><i>(2) Audit findings not corrected or partially corrected:</i></b>					
FY 99	C&I-5	Treasury Should Improve Procedures Over Securing And Storing Supporting Documentation	N/A	\$0	This will be repeated in FY 2000 because information containing FY 1999 and FY 2000 was inadvertently discarded and the information could not be recovered.

***(3) Corrective action taken is significantly different from corrective action previously reported:***

There are no findings to report in this category.

***(4) Audit finding is no longer valid:***

There are no findings to report in this category.



